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SOUTH KOREA-NORTH KOREA: Further Reactions to Bombing

Growing conviction in South Korea that North Korea was responsible for the bombing incident in Rangoon on Sunday may increase pressure on President Chun to retaliate, but his options are limited by broader security concerns. [REDACTED]

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[REDACTED]

the President ask for one. Outrage over the incident is high among South Korean military personnel and the public. [REDACTED]

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[REDACTED]

[REDACTED] North Korean clandestine radiobroadcasts tie the attack to an unspecified "dissident group" and have repeated earlier warnings—which they attribute to "South Korean dissidents"—that President Reagan will face "stern punishment" if he visits Seoul. [REDACTED]

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Meanwhile, Rangoon announced yesterday that authorities had captured one Korean terrorist, killed another, and were searching for a third. [REDACTED]

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Comment: As indications of North Korean involvement build, Chun may feel the need to retaliate in some way to maintain confidence in his leadership. He has little room to maneuver, however, and he almost certainly recognizes that direct retaliation could escalate into open conflict. [REDACTED]

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In addition, Chun's actions are likely to be tempered by his desire not to cause postponement of President Reagan's visit, scheduled for next month. The visit has now become of even greater importance to Chun as a sign of Washington's long-term security commitment to Seoul. [REDACTED]

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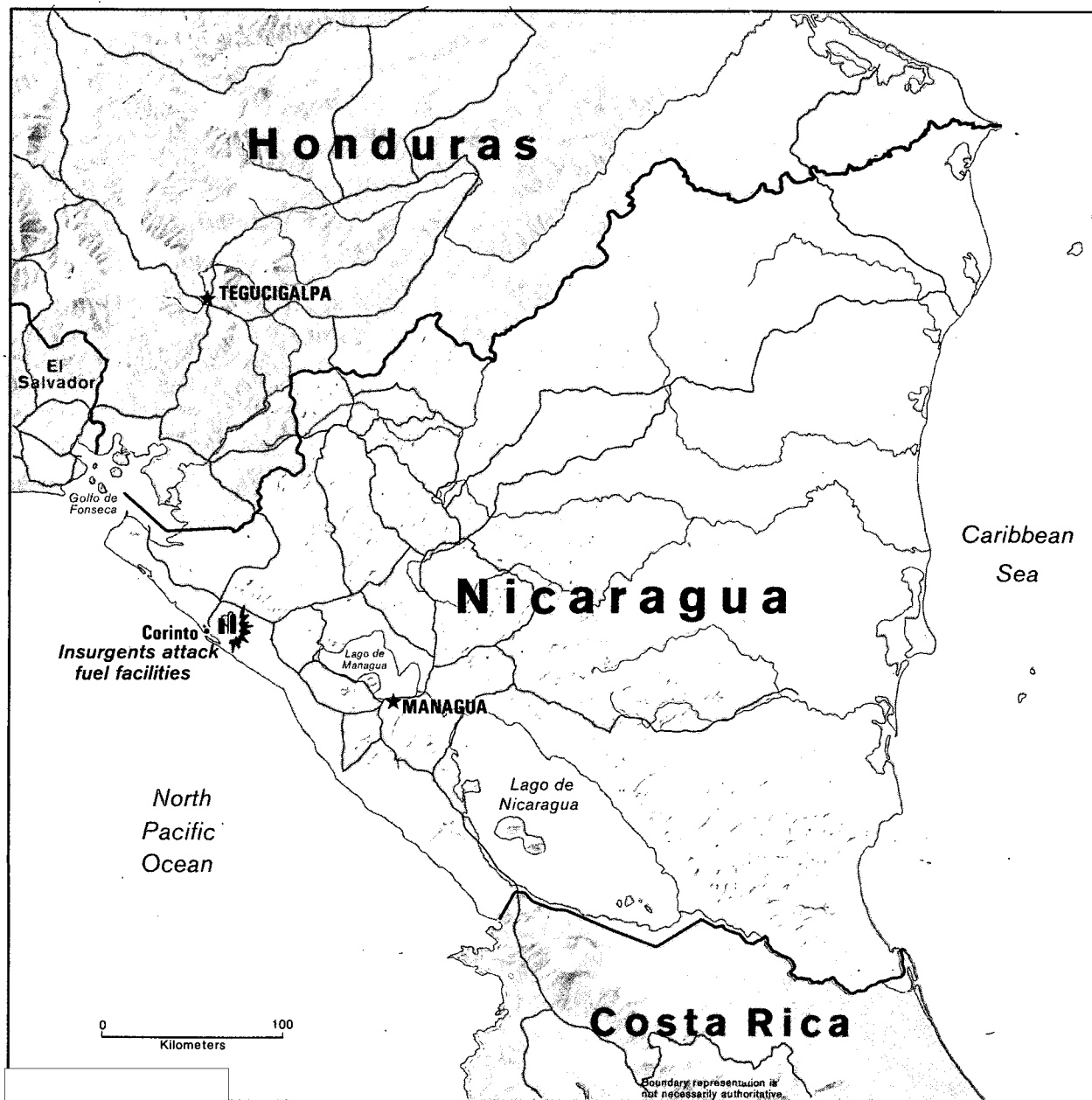
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NICARAGUA: Port Attacked

The government summoned the diplomatic corps yesterday to report on the insurgent attack Monday against the port of Corinto.

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The Nicaraguan Democratic Force publicly claimed credit for the attack yesterday.

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Red Cross officials stated that three sailors aboard a South Korean tanker were among at least 10 people wounded in the attack.

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Comment: The extent of the damage at Corinto is uncertain. The unusual summoning of the diplomatic corps probably prepares the way to protest that the insurgents are attacking Nicaragua's economy. The incident may influence Managua to reverse its earlier decision to defer discussion of Central America at the UN General Assembly.

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LEBANON: Problems for Peace Efforts

The Gemayel government and opposition factions continue to disagree on where to hold national reconciliation talks, and the Lebanese Army's Druze Chief of Staff may be preparing to resign.

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Despite optimistic press reports over the weekend, Druze leader Walid Junblatt yesterday vetoed the presidential palace as a site for reconciliation talks. The government rejected Junblatt's proposal that the talks be held on a Greek ship off the Lebanese coast.

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All factions had agreed to accept several hundred Greek and Italian troops as cease-fire observers. The Druze militia insisted yesterday, however, that a final decision be delayed until other unspecified countries can consider sending observers.

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General Nadim al-Hakim, the highest-ranking Druze in the Lebanese Army, announced from a Druze stronghold in the Shuf yesterday that he will meet with Junblatt soon and will then decide whether to resign from the Army. Hakim threatened to resign early last month following rumors of a massacre of Druze civilians in Kafr Matta, a town in the Shuf, by Lebanese Army personnel.

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Comment: The current deadlock reflects the tensions underlying the negotiations. Even if reconciliation talks can be arranged, little common ground exists between the government's position and opposition demands.

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General Hakim's resignation might encourage the remainder of the Army's 1,100 Druze officers and soldiers to resign or desert, but the impact on the Army's effectiveness is likely to be small. Although the position of Chief of Staff is traditionally held by a Druze, Army Commander Tannous might take the opportunity to improve his relations with the Shia community by replacing Hakim with the senior Shia officer, Brigadier General Abbas Hamdan.

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ISRAEL: New Austerity Measures

The measures announced by the Israeli cabinet yesterday to stem the recent run on the dollar will cause inflation to increase to record levels. [REDACTED]

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The measures included an 18.6-percent devaluation of the shekel and price increases on most government-controlled items, including bread and milk, by 50 percent. A plan was approved to protect holders of bank shares if they will agree to hold the assets for five years. [REDACTED]

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Finance Minister Aridor publicly stated his intention either to negotiate an agreement with Histadrut, the large labor organization, to limit the cost-of-living adjustment or to impose a limit himself. Histadrut has announced a two-hour strike tomorrow. [REDACTED]

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Comment: The cabinet was forced to take action by the public's rush to buy US dollars last week in anticipation of a devaluation. Many Israelis sold stocks, particularly bank shares, for shekels to sell for US dollars, precipitating a crash in the stock market and forcing its closure for a week. Recent press reports citing rising foreign debt and declining foreign exchange reserves contributed to the run on the dollar. [REDACTED]

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The immediate impact of the new measures will be higher prices, which will result in a record inflation this year. If Aridor does not succeed in limiting cost-of-living adjustments, much of the impact of these steps will be mitigated in January, when wages and pensions are adjusted for inflation. [REDACTED]

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Public reaction to the measures appears to be moderate so far. Press interviews with Israelis indicate they accept the need for stringency. Public support for the Shamir government's economic policies probably will begin to erode as the price hikes spread through the economy, particularly if cost-of-living adjustments are not sufficient to compensate for higher prices. [REDACTED]

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PALESTINIANS: Rebels' Political Offensive

Fatah dissidents have begun a political campaign to force PLO chairman Arafat to accept their preeminence in the organization. [redacted]

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Rebel military leader Said Maragha and political leader Nimr Salih claim that a majority of Fatah members now support their movement. Salih on Saturday convened a meeting in Damascus of the heads of the PLO's constituent groups, including key leaders George Habbash and Naif Hawatmah, who have tried to mediate the Fatah dispute. Salih announced that more meetings would be held to discuss the formation of a collective leadership for the PLO. [redacted]

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The dissidents have emphasized recent defections to their ranks as an indication of their growing strength. During the past week 30 Fatah officers stationed in the Bekaa Valley and additional Fatah personnel in Syria have joined them. [redacted]

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The rebels have taken over most of the Fatah offices in Damascus, a move that resulted in fighting on Monday between them and forces loyal to Arafat. The two sides also clashed that day in northern Lebanon. [redacted]

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Comment: The continued erosion of Arafat's support probably has convinced the dissident leaders that they now have sufficient influence to force the PLO chairman's removal, if he continues to resist their demands for more militant policies and closer alignment with Syria. Salih has increased his prestige and legitimacy by convening the PLO leaders in Damascus. Habbash and Hawatmah probably continue to argue in favor of keeping Arafat as at least a symbolic leader, but their attendance indicates their increasing impatience with his intransigence. [redacted]

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Arafat's recent statements calling for renewed dialogue with Jordan will increase his political isolation in Fatah. They could also provide a pretext for a Syrian move against his forces in Lebanon. [redacted]

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USSR: Gas Pipeline Developments

Moscow has announced that the Soviet minister responsible for overseeing the construction of the gas export pipeline to Western Europe has been named a Hero of Socialist Labor, because the pipeline has been completed ahead of schedule. [redacted]

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[redacted] the pipeline is not ready for full-scale operation. [redacted] the Soviets may use domestic pipelines parallel to the export pipeline to transport some of the initial gas to Western Europe. [redacted] the Soviets will be capable within the next three or four months of delivering up to 9 billion cubic meters annually, using spare capacity from the domestic pipeline network to supplement the export pipeline. [redacted]

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Comment: The announcement is part of the Soviet propaganda effort to flaunt the pipeline progress despite US sanctions. The USSR is likely to have little difficulty in meeting initial export commitments to Western Europe in 1984. Although construction of some compressor stations probably is lagging behind schedule, enough power presumably will be on line to meet these initial commitments using only the export pipeline. [redacted]

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USSR-BOLIVIA: Soviets Seek Closer Ties

Moscow is trying to increase its influence in Bolivia by offering military aid and expanded commercial ties. [redacted]

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A Soviet-Bolivian commission recently authorized Soviet construction of a tractor assembly plant and technical assistance in energy, mining, and other fields. It endorsed new efforts in tin-processing ventures that are being financed with a Soviet line of credit of at least \$100 million. Bolivia also has agreed to allow Aeroflot to open an office, although no agreement has been reached on air services. [redacted]

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Comment: Moscow has sought to expand ties throughout South America since the conflict in the Falkland Islands but has made little headway as a result of local suspicion of Soviet motives. It probably hopes that the year-old leftist government in Bolivia under President Siles will be more willing than its military predecessors to permit a greater Soviet presence. [redacted]

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The USSR apparently sees Bolivia as a key country from which to try to influence its neighbors. Siles, however, probably will limit new Soviet ties in deference to the US and the concerns of the anti-Communist Bolivian armed forces. [redacted]

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DENMARK: Election Possible

Increasing opposition to Prime Minister Schlueter's economic program could bring down the center-right minority coalition this month. The centrist Radical Liberal Party and the rightwing Progress Party, both of which have to vote with Schlueter to pass economic legislation, are arguing against budget cutbacks, especially in areas of social welfare. Schlueter said in his opening speech to the parliament on 4 October that the government would stand or fall on four major economic issues. They are public spending cuts, a revised personal income tax system, higher health insurance premiums, and increased contributions to unemployment funds. [REDACTED]

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Comment: The current four-party coalition could retain power in an election based purely on economic issues. Schlueter's Conservatives probably would almost double their seats, although at the expense of the smaller partners. An election and possible delays in putting together a new government might divert the socialist parties from their attempts to soften the Danish position on INF at least until after the initial deployments in December. [REDACTED]

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Special Analysis

ISRAEL: Prospects for the Shamir Government

Prime Minister Shamir probably will find it hard to preserve the cohesion and stability of the government he has inherited. He will have to expend considerable energy trying to keep peace among the components of the Likud-dominated coalition that are in conflict over patronage and policy, especially on urgent economic issues. Moreover, he will have to mediate among the younger Herut Party leaders, who are competing for the leadership of the party. Shamir shares many of former Prime Minister Begin's hardline political views and generally will keep to the policy course set by his predecessor in both domestic and foreign affairs.

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The fractious coalition hitherto has been held together by Begin's force of character. Begin's alliance with the religious parties, for example, was forged on the basis of his personal commitment to religious values that are as important to the National Religious Party as to the ultraorthodox Agudat Israel. Shamir is not seen to have the same commitment.

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Media reports indicate leaders of the National Religious Party are concerned about the decline in their party's electoral support during the period it has been aligned with Likud. Moreover, they are having misgivings about the coalition's stability following Begin's departure.

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The TAMI Party, which draws support from economically depressed Sephardi Jews, is objecting to budget measures adopted last August that it believes hurt its constituency. The party also is angry over the treatment of its leader, Aharon Abu Hatzaira, who is serving a brief sentence for embezzlement.

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Shamir will have to devote special attention to containing the feud between the Herut and Liberal Parties. According to the US Embassy, Liberal politicians are taking seriously newspaper reports that Herut now wants to scrap its agreement of 1965 with the Liberal Party forming the Likud parliamentary alliance. The media say the party wants to reduce the Liberals' representation in the Knesset and cabinet to bring it more in line with their electoral support.

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Challenges for the Leadership

Because Shamir has yet to establish his predominance among his cabinet peers, he presumably will govern by consensus. His senior ministers and potential rivals—Deputy Prime Minister Levy, Defense Minister Arens, Finance Minister Aridor, and possibly Minister Without Portfolio Sharon—will play important roles. Shamir will delegate broad responsibility to his senior colleagues, at the same time attempting to win over his rivals or play them off against each other. [redacted]

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Shamir, unlike Begin, is uncomfortable with rancorous confrontation. As Prime Minister, he will be more flexible tactically, but he probably will remain firm on important policy issues. [redacted]

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Despite Shamir's selection as Herut leader, the real succession battle within the party has yet to begin. Shamir is generally regarded in Israel as an interim leader who will serve until Herut's rising generation of new leaders is ready to take over. [redacted]

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Shamir does not have widespread support among Herut's rank-and-file membership or among Israel's Sephardi community, which provided Begin with a solid foundation of support. His administration probably will be complicated by maneuvering among younger, ambitious Herut leaders aspiring to his job, David Levy in particular. [redacted]

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In the past, when Begin's coalition partners occasionally rebelled, they were careful not to bring the government down by deserting it in a vote of confidence. They were well aware of Begin's enormous popularity. Shamir does not wield such powerful political leverage, and the instinct for survival in office probably will not be sufficient to keep the coalition together, barring some national crisis that would coalesce the government. [redacted]

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The coalition is likely to break up next year. Facing the prospect of going to the polls with a leader who lacks a strong personal following, the younger Herut leaders—Levy, Arens, Sharon, and possibly former Defense Minister Weizman—can be expected to challenge Shamir for the party leadership. The constituency Begin held together by the force of his personal magnetism, meanwhile, will probably divide its loyalties among several of the contenders. [redacted]

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Labor Party Encouraged

The opposition Labor Party's prospects for returning to power have been considerably enhanced by events. Following Begin's resignation, party chairman Peres and former Prime Minister Rabin have patched over their differences, in an effort to portray Labor as a viable political force. [redacted]

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New parliamentary elections, however, would test the Labor Party's fragile unity. The party is hampered by its failure to make the structural and ideological changes necessary to restore public confidence in it and its leadership. [REDACTED]

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Implications for the US

Shamir, whose service as Foreign Minister under Begin made him more sensitive to the importance of relations with the US, will try to maintain the good climate in US-Israeli relations that has developed over the past year. He is retaining Arens—the Begin government's most outspoken advocate of close ties with the US—as Minister of Defense. [REDACTED]

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The Shamir government is unlikely to make substantial policy changes, however, in matters where there were important differences between the US and Israel under Begin. These include President Reagan's peace plan and the handling of the West Bank. [REDACTED]

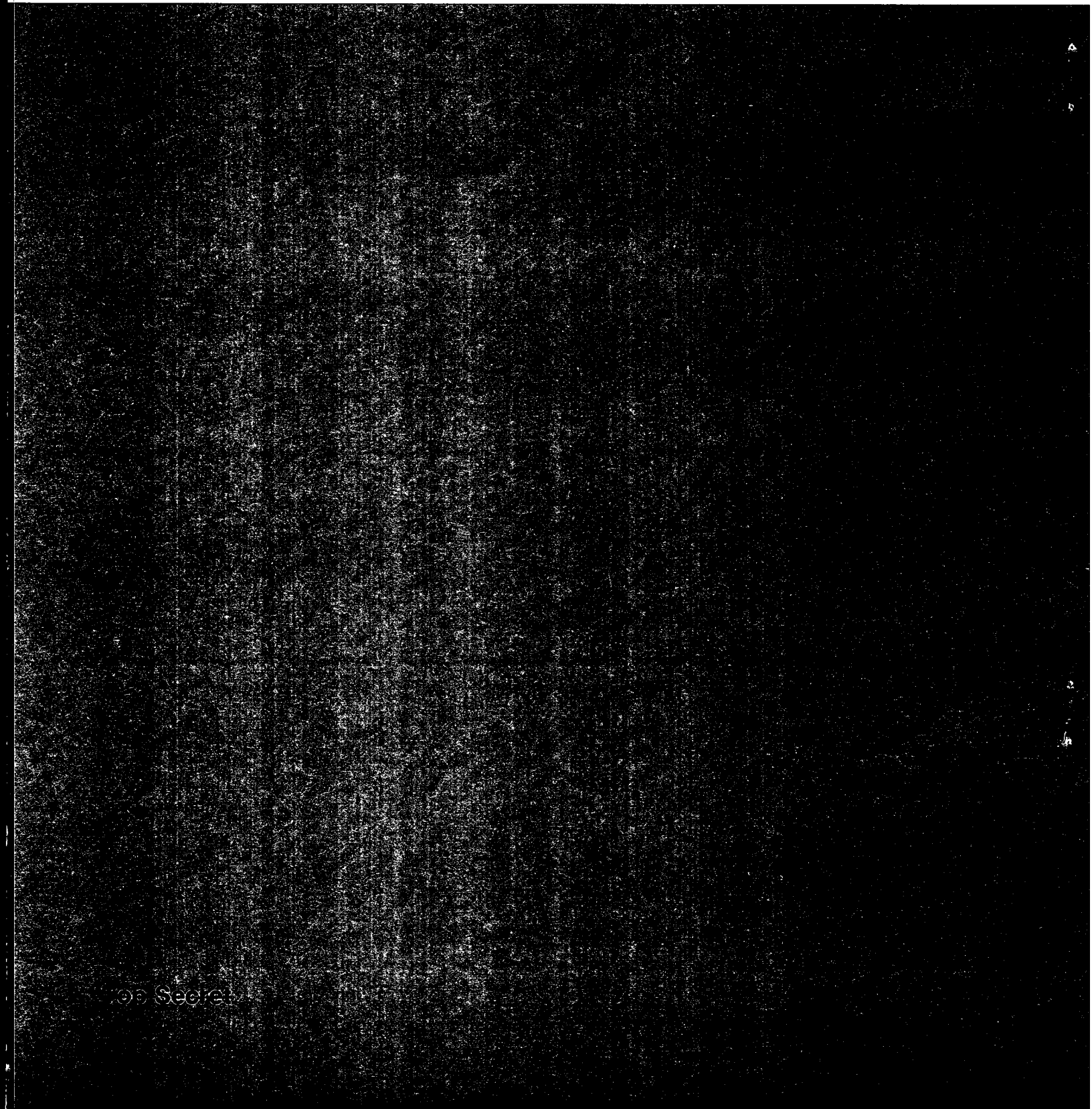
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